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SUBJECT: BELARUS: THE GLOBAL ECONOMIC CRISIS HAS ARRIVED

REF: VILNIUS 1007

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Summary

¶1. (SBU) Although President Lukashenka initially claimed that the global financial crisis would make the world realize the efficiency of Belarus' state-controlled economic "model," the crisis is having a clear impact on Belarus' economy. Effects can be seen mainly in the drop in exports, the level of hard currency reserves, and in the exchange rate, as well as limitations in the banking system and the reemergence of the black market. Now that the depth of the problem has been realized, the GOB is working more seriously to address the situation (including with the IMF, see update septel), but even if long-delayed reforms are undertaken the regime will find it extremely difficult to placate the Belarusian citizens who have been led to believe they are isolated from the world's economic problems. End summary.

Declining demand in traditional export markets

¶2. (SBU) Exports constitute the main source of Belarus' budget revenues with potassium fertilizers, oil and chemical products, machinery and food topping the list. Demand in traditional markets, primarily Russia and Ukraine, has fallen dramatically. According to official statistics, in July through October Belarus' total exports decreased by USD 130 million, or four percent, per month. Since President Lukashenka "prohibited" an increase in unemployment because it would lead to social instability, many companies in the export sector and elsewhere have shortened working hours and sent workers on long unpaid leaves. We have learned that workers at the Atlant refrigerator factory in Minsk have been sent home -- without pay -- for three weeks; employees of state-owned factories in Borisov are expected to go on three or four weeks of unpaid holiday leave starting later this month.

Benefits to exporters?

¶3. (SBU) In the past, any exporter selling goods below cost was investigated by the GOB, as some kind of fraud was assumed. As prices abroad decline, exporters have been making fewer sales, choosing to keep inventory on hand rather than risk an investigation. (Comment: The National Bank is crowing about contiued GDP growth, although all state enterprises have been doing is filling warehouses with no customers in sight. End comment.) The GOB tried to remedy the export situation December 1, issuing a resolution to allow Belarusian companies to export at prices below cost, but only on a case-by-case basis after a complicated permission process. With energy and raw materials prices plummeting, the GOB is still hopeful that exporters can

reduce their production costs and remain profitable, selling little below cost.

Currency scarcity and soft ban on imports

¶4. (SBU) The country's hard currency reserves (kept in U.S. dollars, Euros, Russian rubles and Yuan) are depleting quickly due to the expense required to prop up the Belarusian ruble; the IMF estimate is just under USD 20 million per day. It is also increasingly difficult to buy dollars and euros on the market, tying the hands of companies that do business in such currencies. In an attempt to keep hard currency in the country, the National Bank issued a resolution in November that allows buying hard currency for advance import payments only in exceptional situations. The same resolution recommends that exporters try and secure advance payments for their products. Hoping to drive consumers to local products, the government has instituted a soft ban on imports of many consumer and food products, urging Belarusian importers to avoid bringing non-critical imports into the country. (Comment: Although these recommendations carry no penalties for non-compliance, any business found working against the recommendations will likely be investigated for other matters and punished accordingly. End comment.)

You've got a raise...or not

¶5. (SBU) In October, the GOB announced a 25 percent increase in pensions and public-sector salaries. The raise was short-lived, the increase was reduced from 25 to five percent December 1; the GOB promptly blamed the change on the global financial crisis. Many Belarusians will probably still have a significant increase in net income as a graduated 9 to 30 percent income tax will be replaced by a flat 12 percent income tax starting in January 2009, although that same flat tax is highly criticized by private entrepreneurs.

Keeping the banks afloat, at all costs

¶6. (SBU) At this point, extreme steps have been taken to protect the country's banking system. In November Lukashenka issued a decree to allow unlimited no-questions-asked deposits in Belarusian banks to everybody, including foreigners, and insure every deposit regardless of amount. The National Bank has been steadily increasing the bank rate to encourage customers to keep their money in the bank; the effect on loan rates however makes the average citizen unable to afford a loan. However, some banks -- including Belarusbank, the nation's largest -- no longer issue loans for mortgages or new housing construction. In November the four largest state-owned Belarusian banks received a total of USD 1.5 billion from the country's budget to replenish their reserve funds. This puts yet another strain on GOB hard currency reserves; in August through November gold and hard currency reserves dropped by 18.4 percent.

Exchange rate blues

¶7. (SBU) As reported reftel, the National Bank has allowed the Belarusian ruble to slip; the current rate is about four to five percent lower vis-a-vis the U.S. dollar at just over BYR 2,200:USD 1. Interestingly, 92-octane gasoline, currently at BYR 2,530 per liter, is only USD 1.04 a liter at state-controlled stations (a 15 percent difference) to encourage some Belarusians to cash in their USD. Black marketeers are becoming more widespread as well; we do not unfortunately have good information on what rates they are offering.

Next steps: more control?

¶8. (SBU) On December 4, Lukashenka announced that the primary mission of all government agencies should be to sell Belarusian-made products and preserve traditional markets at home and abroad. The GOB plans to reduce sales taxes and will provide other tax benefits and subsidies to producers. In an effort to cut budget spending, the government will revise all major economic projects, implement higher tariffs on imported consumer goods, reduce or cancel export tariffs, require less bureaucratic licensing, and reduce inspections of businesses. Consumers are supportive of these plans but are skeptical that they will result in much change.

Comment

¶9. (SBU) The Belarusian people are periodically and unfairly accused of being passive in the face of their dictator's machinations. It is true that the regime's control of public life has given the democratic opposition few opportunities to make its case to the people. Now, however, the GOB faces broad public dissent as the oft-proclaimed Belarusian "economic miracle" is shown to be a failure. That said, economic collapse is not/not in the USG's interest: if he has no hope of escape, Lukashenka will make any desperate deals that Moscow can stomach and likely use the worst elements of his apparatus to clamp down on civil society, both of which would significantly hobble any (albeit distant) prospect for a democratic Belarus.
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